

Message Text

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AMEMBASSY CARACAS
AMEMBASSY DOHA
AMEMBASSY JAKARTA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LIBREVILLE
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY QUITO
AMEMBASSY ROME
AMEMBASSY TEHRAN
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AMEMBASSY TRIPOLI
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E. O. 11652: N/A
TAGS: ENRG, NI
SUBJ: FURTHER NIGERIAN COMMENT ON TWO-TIER OPEC PRICE AND
PRODUCTION CUTBACKS

REF : LAGOS 0612 (NOTAL)
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1. IN COURSE DISCUSSION WITH EMBASSY PETROLEUM OFFICER REPORTED
REFTEL: ASSISTANT DIRECTOR MINISTRY PETROLEUM RESOURCES FOR
ECONOMIC AND OPEC AFFAIRS O.A. OKANLA COMMENTED ON SAUDI ARABIAN
PRICE DECISION, CUTS IN SALES BY SOME OPEC PRODUCERS, OUTLOOK
FOR MAINTAINING HIGHER PRICES, AND MANNER IN WHICH NIGERIA SET
ITS OWN PRICES.

2. OKANLA APPEARED HAVE TROUBLE GRASPING IDEA THAT SAUDI DECISION HINGED ON DEEPLY HELD CONVICTIONS ABOUT UNDESIRABLE POLITICAL CONSEQUENCES OF OIL PRICE INCREASE FOR SOME EUROPEAN CONSUMER COUNTRIES. OKANLA'S REACTION TO POSSIBILITY OF COMMUNIST REGIMES COMING TO POWER IN ITALY OR FRANCE WAS TO QUESTION WPQ SAUDIS SHOULD INTERFERE IN INTERNAL AFFAIRS OF OTHER COUNTRIES. DECISION ON OWN FORM OF GOVERNMENT UP TO ITALIANS AND FRENCH THEMSELVES. OKANLA SEEMED CONVINCED THAT SAUDI CONCERN WITH COMMUNISM WAS REALLY A REFLECTION OF TRADITIONAL AMERICAN ANTI-COMMUNIST STANCE AND RESULT OF USG DIPLOMATIC PRESSURE. HE ALSO VENTURED OPINION SAUDI'S MOTIVATED MAINLY BY USG PROMISES OF DEAL ON MIDDLE EAST PEACE. IT REMAINED TO BE SEEN WHETHER SAUDIS WOULD REALIZE ANY ADVANTAGES OR WIND UP EMPTY HANDED. MEANWHILE, THERE MUST SURELY BE "RADICALS" IN SAUDI ARABIA WHO STRONGLY CONVINCED SAG SHOULD HAVE OPTED FOR HIGHER PRICE INCREASE. BY TAKING ADAMANT STAND IN FAVOR OF DEVELOPED WESTERN COUNTRIES AND AGAINST OTHER OPEC MEMBERS, AND BY THREATENING BREAK UP OPEC WITH CAMPAIGN TO INCREASE PRODUCTION, SAG MIGHT BE EXPOSING ITSELF TO OVERTHROW ATTEMPT BY THESE DOMESTIC RADICALS, POSSIBLY SUPPORTED BY FORCES FROM OTHER ARAB COUNTRIES. OKANLA HASTENED TO ADD HE SIMPLY ENGAGING IN PERSONAL SPECULATION, CERTAINLY HAD NO WIND OF MOVES AGAINST SAG, ONLY SAYING THAT GIVEN VOLATILE ARAB TEMPERAMENT ANYTHING MIGHT HAPPEN.

3. RE CUTBACKS BEING SUFFERED BY KUWAIT AND IRAN IN THEIR OIL SALES AND OUTLOOK FOR COMING MONTHS, OKANLA ARGUED THAT: A) KUWAIT COULD WELL AFFORD TO CUT BACK PRODUCTION SINCE IT DIDN'T NEED REVENUE; B) IRAN HAD BEEN PRODUCING WAY ABOVE ITS OWN SELF-IMPOSED LIMITED OFFICIAL USE

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CEILING, SO ITS PRODUCTION CUTBACKS WOULD SIMPLY RESTORE STATUS QUO ANTE. OKANLA GAVE IMPRESSION FMG FEELS ITSELF INSULATED AND SOMEWHAT REMOVED FROM PROBLEMS FACED BY OIL PRODUCERS WHO ARE LOSING SALES. HE SAID NIGERIAN OIL DIFFERENT FROM THOSE TYPES BEING AFFECTED BY CUTBACKS AND INDICATED NO PARTICULAR CONCERN WITH QUESTION WHETHER OTHER PRODUCERS SHOULD HELP BY ABSORBING PRO-RATA CUTBACKS OF THEIR OWN PRODUCTION. OKANLA SAID PRODUCTION CUTBACKS WERE ONLY TO BE EXPECTED AS CONSEQUENCE OF PRE-PRICE HIKE STOCKPILING. HOWEVER, WHILE PRODUCTION MIGHT DROP IN THE FIRST QUARTER OF 1977 AS CONSUMER NATIONS AND OIL COMPANIES LIVED OFF STOCKPILES IN ATTEMPT FORCE OIL PRICE DOWN: HE CONVINCED THAT STOCKPILING WOULD BEGIN AGAIN IN SECOND QUARTER IN ANTICIPATION OF ADDITIONAL 5 PERCENT PRICE HIKE IN JULY. THIS WOULD RAISE PRODUCTION AGAIN AND ENABLE PRODUCERS TO RESIST EFFORT TO DRIVE PRICE DOWN.

4. RE SETTING PRICES, OKANLA SAID NIGERIA, AS AGREED BY OPEC ELEVEN, RAISED SAUDI ARABIAN MARKER PRICE FROM DOLLARS 11.51 TO 12.70. DIFFERENTIAL BETWEEN MARKER AND OFFICIAL SALES PRICE

FOR 37 API BONNY LIGHT AT DOLLARS 13.25 HAD BEEN DOLLARS 1.74.
HOWEVER, REVIEW OF SPOT MARKET PRICES IN SECOND HALF 1976 SHOWED
ACTUAL DIFFERENTIAL HAD VARIED FROM DOLLARS 1.59 TO 1.75 (SEE
PIW DECEMBER 6, PAGE 6). THUS, FMG COULD LEGITIMATELY WORK WITHIN
THIS RANGE, AND ELECTED TO SET DIFFERENTIAL AT SLIGHTLY LOWER
LEVEL OF DOLLARS 1.61. ADDING THIS TO NEW MARKER PRICE PRODUCED
NEW DOLLARS 14.31 PRICE FOR BONNY LIGHT. COMMENT: NIGERIAN
DIFFERENTIAL PROBABLY ALSO AFFECTED BY ALGERIAN DECISION TO SET
DIFFERENTIAL AT DOLLARS 1.55 TO 1.60 AS DISCUSSED IN PIW -
DECEMBER 6 PAGE 1, AND PIW DECEMBER 27 PAGE 5.
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